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Challenges and Potential of the U.S. Professional Services Market, 1991-1996

Note: The information in this research bulletin is drawn from INPUT's *U.S. Professional Services Market, 1991-1996* report, which contains INPUT's annual analysis and forecast of the professional services sector of the U.S. Information Services Industry. For a more detailed review of this forecast, please contact any INPUT office.

Professional services capabilities have been an important factor to many of the largest vendors in the information services industry—including IBM, DEC, CSC, EDS, and Andersen Consulting—as a mode of service, a component of system integration services, and a means of supporting the sale of other products and services.

Over the past couple of years, the growth in the professional services area has declined, while the systems integration approach to service has experienced significant growth. In 1991 the growth in professional services will be about 6%.

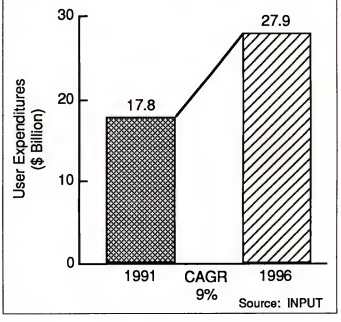
Despite recent problems, the market for professional services will renew growth over the next five years—from a 1991 level of $17.8 billion to a 1996 level of $27.9 million. This growth will make professional services the third largest mode of service among the eight delivery modes of information services tracked by INPUT. This growth represents a compound annual growth rate (CAGR) of 9% as illustrated in Exhibit 1.

Eighty-four percent of these expenditures come from only six of INPUT's fifteen market segments. The six are listed below in order of decreasing volume:

- Discrete manufacturing
- State and local government
- Federal government
- Banking and finance
- Process manufacturing
- Insurance

Exhibit 1

U.S. Professional Services Market 1991-1996



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1991 Performance

The problems and changes in the professional services market—which lowered growth of user expenditures to a rate around 6% in 1991, 4% below the prior forecast rate—were led by the adverse impact of the recession and protracted recovery. Users found it was easier to delay or reduce the use of professional services versus other information services such as software products, networks, or processing services. Once work is initiated for one of these services or a systems integration contract, it is more difficult to interrupt service.

The use of professional services in 1991 was affected in a selective way. Some geographic areas and some vendors suffered more than others.

In the Northeast, particularly around Boston and New York where the recession had a noticeable impact, the market for professional services was nearly flat or declining for the first half 1991. Some vendors that served these or other depressed areas felt the impact in noticeably reduced sales. These vendors tended to be ones with a high component of contract services for software development as part of their sales of professional services.

Research showed that some larger firms with significant sales of contract software development services not only suffered directly from the recession but from competition from rapidly growing smaller employment agency firms that supply contract personnel on a narrow margin. Major corporations reported that they were willing to consider use of these firms for contract personnel, particularly for noncritical jobs. These agency firms were able to attract consultants and analysts from those being let go by larger information systems organizations as a result of reorganizations and downsizing efforts.

The four firms (IBM, CSC, EDS, and Andersen Consulting) with the greatest volume of professional services sales outperformed the market by a sizable margin in 1991 and are forecast to outperform the market between 1991 and 1996. These firms market other information services, particularly systems integration, in addition to professional services and sell a significant amount of consulting services, one of the three submodes of professional services.

1991-1996 Forecast

Consulting services has a higher margin of return than contract software development, and its 13% growth rate for the planning period of 1991 to 1996 is higher than the growth of the other two modes of professional services, as shown in Exhibit 2.

The education and training submode of professional services is also growing faster—at a rate of 11% during the planning period—than is software development. The top four vendors of professional services are also among the leaders in this submode of professional services.

Systems development—which represents over half of the professional services sector—has the slowest growth rate (7%) for the 1991-1996 period.

Two sectors of high growth have been removed from the professional services market and recognized as different modes of service in the past couple of years because of the differences in characteristics from the rest of professional services. The first high-growth sector,

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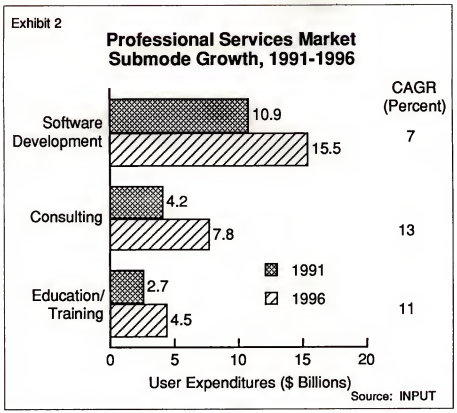
Exhibit 2



systems integration, covers large, complex projects that are managed by an integrator of products and services. The movement of large projects to this mode has had an impact on the growth rate for professional services.

The separation of the rapidly growing facility management submode from professional services has also had an impact on the growth rate of professional services. This activity was separated and moved to the service mode of systems operation since it was more operational in nature. Some of the leading vendors in professional services have used capabilities in the systems integration and systems operation modes to maintain growth rates greater than the industry average.

Other Professional Services Sectors

In addition to the primary professional services market sector covered by the above forecast, professional services are included in a number of the other delivery modes: turnkey systems, systems integration, and customer services, which is classified outside the information services industry.

Professional services can support the sales of some modes of information services—such as software products, network services, processing services, and systems operation—by providing services to plan, customize, or train clients to use products and services. These revenues are tied to and included within the pricing of these products and services and cannot easily be quantified. Historically these professional services are giveaways.

INPUT quantifies professional services that are sold as components of systems integration, turnkey systems, and customer services. If the use of these components is added to the basic professional services forecast, the total market for professional service capabilities amounts to $22.7 billion in 1991 and will grow to $38.8 billion in 1996, as shown in Exhibit 3. The compound annual growth rate for these services of 11% is higher than the 9% rate for the professional services market itself.

Not all vendors of professional services make use of opportunities to sell their services in other service modes or use the services to help market other capabilities. As noted before, the top performers in the market as well as the Big 6 firms provide systems integration as well as professional services. AMS, Oracle, Ask, and System Software Associates market software products in conjunction with professional

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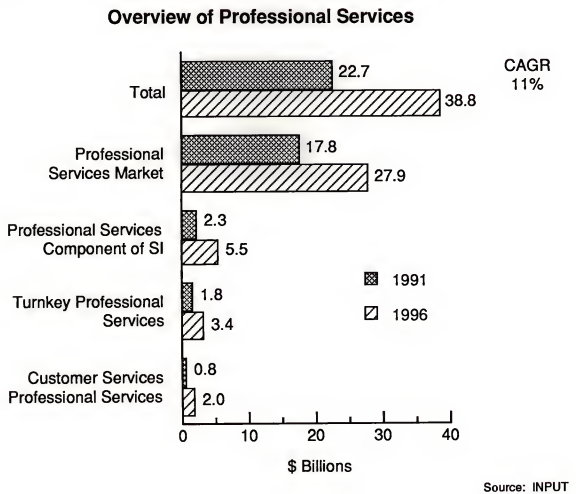
services. Computer hardware vendors market professional services together with hardware and software products.

INPUT believes that to a growing degree the professional services sector growth will be fueled by synergy with other products and services. In addition, areas such as greater use of standards and open systems, international business requirements, application systems and business process re-engineering, and the introduction of new types of multimedia education and training products and aids will generate added opportunities for the progressive professional services firm.

Exhibit 3



This Research Bulletin is issued as part of INPUT's Market Analysis Program for the information services industry. If you have questions or comments on this bulletin, please call your local INPUT organization or Doug Tayler at INPUT, 1280 Villa Street, Mountain View, CA 94041-1194 (415) 961-3300

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